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COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

)
Inquiry into Metering, Billing and Information)
Services, and the Exclusivity of Distribution) D.T.E. 00-41
Company Franchises Pursuant to Section 312)
of the Electric Utility Restructuring Act)

INITIAL COMMENTS OF

FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

introduction

Fitchburg Gas and Electric Light Company ("FG&E" or "Company") files these comments in response to the Notice of Inquiry ("NOI") and Order Opening Investigation issued by the Department of Telecommunications and Energy ("Department") on June 12, 2000, into whether (1) metering, meter maintenance and testing, customer billing and information services (collectively "MBIS") associated with electric and gas service may be competitively provided; and (2) distribution companies service territories should remain exclusive.

In its Order, the Department requested information regarding FG&E's costs associated with metering, billing and information services, as such were recovered through the Company's base rates for the year 1999. The Company has responded with a complete list of direct costs recovered through base rates associated with MBIS, including capital costs, depreciation, operating expenses and taxes. See Attachment 1. In Attachment 1, the Company provides a description of the activities encompassed by metering, billing, and information services. Attachment 1, pages 1-2. The Department also requested that the Company provide information on the number of employees, including the salaries and years of service, that engage in the provision of metering, billing, and information systems activities. See Attachment 2.

responses to department questions

What are the costs and benefits that competitive MBIS would provide to consumers of electricity, and to other entities that provide services in the electric industries?

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Benefits should include, but not be limited to, potential cost savings, the enhancement of available energy- and non-energy-related services, and the extent to which the successful development of the competitive market for generation requires the introduction of competitive MBIS. Please also discuss why these same benefits could not be achieved within the current monopoly structure. Comments on the costs of competitive MBIS should include, but not be limited to, impacts on utility employee staffing and the effect that such competition would have on a distribution company's ability to meet the needs of its customers on an ongoing basis.

The costs of implementing a shift in MBIS function from distribution to competitive provision are large and more easily quantifiable, while the corresponding benefits of shifting MBIS functions to the market are relatively small. Even if competitive provision of MBIS were demonstrated to be in the public interest, FG&E must maintain its own MBIS systems in order to provide default service and to provide MBIS services at the request of a competitive supplier. In addition, primary data collection, data gathering and dissemination is necessary for other functions of the distribution company's business, such as load reporting to the New England ISO and competitive suppliers. Because the costs associated with the central systems are fixed, there is a significant difference between the average cost and the marginal cost of MBIS. Therefore, the potential real savings associated with competitive provision of MBIS are likely to be small when one considers that the transition to competitive MBIS would impose costs related to development of new systems, development of new communications systems, and modifications to billing systems to address multiple customer options. FG&E has developed many efficiencies in the way it currently meets its MBIS obligation. For instance, as described in Response No. 2 below, FG&E has a combined customer service center, operating 24 hours a day, that provides service on an integrated basis for the benefit of its gas distribution division and its New Hampshire retail utility affiliates. The costs are shared, economies of scale are achieved, and the service is of high quality to all utility customers in the Util System.

FG&E believes that the benefits that may accompany competitive MBIS can be created by distribution company provision of MBIS. For instance, FG&E now owns every meter in its service territory in order to 1) manage the "cash register" and 2) ensure adequate and reliable distribution service. The more expensive, technologically-advanced meters requested by and provided to FG&E's largest customers are currently available to these more sophisticated customers. At this early stage in competition, it is FG&E's belief that smaller customers, particularly residential customers, should first embrace and understand the benefits of competition in energy supply before they are thrown into an environment of competitive metering and billing.

Please describe all services that are currently provided by distribution companies under the broad category of metering, billing, and information systems? Can or should all these services be provided competitively? If not, please identify services that cannot or should not be provided competitively and explain why that is so.

Currently, distribution companies provide metering services such as meter reading, meter procurement, installation, testing and maintenance, and provision of data to billing parties. Billing services provided by distribution companies include the calculating, printing, and mailing of bills and receiving payments from customers. Services associated with information systems include the matters addressing primary data collection: maintenance of customer and account records, implementation of payment plans and issuance of notices under the appropriate terms and conditions. In addition, costs associated with Customer Service Center interface with these activities is also relevant.

The continued provision of metering services by distribution companies, minimizes the costs associated with entry into the market by new suppliers. Suppliers need not operate their own metering system. Distribution companies can facilitate a customer's transition from one supplier to another by eliminating the need for the customer to change meters, buy meters, or replace meters, when changing suppliers.

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Of vital importance is that customer privacy is more easily protected if the distribution company retains responsibility for MBIS functions. Finally, customers have a central contact point for information regarding billing issues and usage questions, and the central point is a known entity with a local presence. FG&E uses Unitil's centralized call center personnel and customer service staff to address these issues; this allows FG&E to perform the MBIS functions at minimal additional cost.

As long as the Department requires FG&E to provide the universal service function of securing default service, FG&E will have to maintain the property and systems sufficient to meet its MBIS responsibility. Competitive provision, without anything further, imposes duplicative costs on customers. For all of these reasons, FG&E believes that MBIS functions are more easily, efficiently and appropriately provided by the regulated distribution companies rather than the other providers.

G.L. c. 164, 1B(a) provides that distribution company service territories shall be based on the service territories actually served on July 1, 1997, and following, to the extent possible, municipal boundaries. Please discuss whether this provision of G.L. c. 164 should be amended or repealed in whole or part. As part of this response, commenters are encouraged to refer and cite to relevant statutory interpretations or Department decisions.

FG&E recognizes that the Restructuring Act was enacted in order to create manifest change in the provision of electric supply, theoretically lowering electric prices for retail customers and improving services. However, for good reason, the exclusivity of electric distribution company service areas has a long history in Massachusetts and is recognized both by statutory provisions as well as in court decisions.

The reasons for establishing and maintaining the exclusivity of the distribution franchise are many. For instance, the Restructuring Act embodied multiple balancing provisions in order to make restructuring palatable to the many stakeholders. While reducing, with the intent of eliminating, a distribution company's ability to supply electric power, the Act clearly reinforced the franchise grant on distribution service provided to the Commonwealth's distribution utilities. G.L. c. 164, § 1B(a). FG&E views this as a purposeful statutory provision that should not be changed without clear evidence of a substantial public benefit. Also, the exclusivity serves the important purpose of ensuring reliability and continued provision of universal service. These public policy goals are not eliminated by the Restructuring Act, but rather, plainly mandated.

Finally, the historical purposes for exclusive franchises of the wires company still remains. Distribution service is a natural monopoly. Competition would require a devotion of capital that is contrary to the efficient use of resources, and competition is likely to be destructive both to the financial integrity of the distribution company, the aesthetic tastes of its customers, and the reliability required by the system.

When, as in the generation of electric power, technological innovation changes the market infrastructure and its natural monopoly, and where the benefits of competition are demonstrative, then and only then should the Department consider recommending a change in G.L. c. 164, § 1B(a).

G.L. c. 164, 1B(a) provides distribution companies with the exclusive obligation to provide distribution service to all retail customers within their respective service territories unless the written consent of the distribution company has been obtained and filed with the Department and clerk of the municipality so affected. Please discuss whether this provision of G.L. c. 164 should be amended or repealed in whole or part.

As written, Section 1B(a) of Chapter 164 allows for flexibility of the otherwise exclusive franchise to permit customers to be served more efficiently by a neighboring distribution company. Typically, this occurs when the construction costs that would be incurred to extend service are significantly lower for a border utility than the costs that would be incurred by the franchised company. In such a

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situation, it is in the customer's interest as well in the public interest to promote efficiency and to allow for the consensual transfer of the customer to another service territory. Because this provision promotes efficiency and yet protects reliability of the system, G.L. c. 164, § 1B(a) should not be modified.

G.L. c. 164, 1B(c) prohibits Department-regulated electric companies or their affiliates from using the distribution system of another electric company or make direct or indirect sales to end-use customers in another electric company's service territory unless (1) the Department has approved a restructuring plan for the supplying electric company providing for comparable direct access to end-use customers within its own distribution service territory, or (2) the supplying electric company has entered into an agreement, on or before January 1, 1997, for direct access to an end-use customer located on the border of its service territory. Please discuss whether this provision of G.L. c. 164 should be amended or repealed in whole or part.

It is FG&E's belief that no modifications to this provision are necessary. This is a transition mechanism designed to ensure reciprocity when the timing of restructuring resulted in some utilities having implemented retail choice when others had not. All franchised Massachusetts investor-owned electric utilities have restructured. All have divested. This provision is no longer applicable or active. However, it has more than a trifle of historical significance in showing how the Commonwealth brought about restructuring, and should remain on the books until restructuring is complete and the market takes hold.

To what extent, if any, does the Restructuring Act require or allow the Department to consider whether MBIS should be offered competitively within the natural gas industry?

FG&E submits that it is premature for the Department to consider whether MBIS should be offered competitively within the franchises of the Commonwealth's local gas distribution companies. The Act only requires the Department investigate competitive provision of MBIS for electric distributions companies. St. 1997, ch. 164, § 312. It asks that the Department seek input from, among others, LDCs.

The General Court stated in its preamble to the Restructuring Act that it was establishing the format that would define the direction of electric industry in order to ensure competitive electric supply; it set the public policy decisions to balance many complex and divided stakeholder interests. By blatant contrast, the Restructuring Act and G.L. c. 164 is much more general in its effort to address gas industry restructuring. For example, the Act contains no consumer protections relative to gas industry restructuring, but provides a dynamic for consumer protection in competitive electric markets. In addition, though the restructuring of gas industry capacity payments is likely to induce a stranded cost claim, the General Court did not address the issue of stranded cost recovery for the gas industry, even though it went to great pains to do so on behalf of the electric industry.

There is a strong argument that the Department should not make fundamental changes in the structure of the natural gas market or in the franchises, business activities or purposes protected and vested by law, without more direction from the General Court. FG&E respectfully submits that such an inquiry is premature and would unnecessarily complicate the instant investigation.

conclusion

For the reasons summarized herein, Fitchburg Gas and Electric Light Company respectfully proffers that the Department should conclude that metering, billing and information services need not be unbundled at the present time or be subject to competition, for the primary reason that the public benefit of such action has not been demonstrated. For similar reasons, the FG&E believes Department need not recommend any changes to G.L. c. 164, sec. 1B(a) at the present time. Finally, FG&E would submit that the Department should await further guidance

from the General Court before it institutes an investigation into the provision of competitive MBIS for gas local distribution companies.

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Respectfully submitted,

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